

CITY OF FAIRFAX
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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CITY OF FAIRFAX
OFFICIALS
(Before January, 2012)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Rabe	Mayor	Jan. 2012
Marianne Wainwright	Mayor Pro tem	Jan. 2014
Travis Otto	Council Member	Jan. 2012
Marc Magers	Council Member	Jan. 2012
JoAnn Beer	Council Member	Jan. 2014
Bernie Frieden	Council Member	Jan. 2014
Cynthia Stimson	Clerk/Treasurer	Indefinite
Randy Scholer	Attorney	Indefinite

(After December, 2011)

Jason Rabe	Mayor	Jan. 2014
Marianne Wainwright	Mayor Pro tem	Jan. 2014
JoAnn Beer	Council Member	Jan. 2014
Bernie Frieden	Council Member	Jan. 2014
Travis Otto	Council Member	Jan. 2016
Marc Magers	Council Member	Jan. 2016
Cynthia Stimson	Clerk/Treasurer	Indefinite
Randy Scholer	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairfax's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2013 on our consideration of the City of Fairfax's internal control over financial

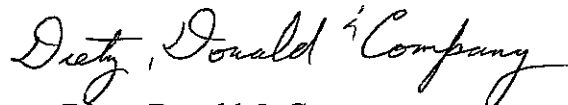
reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2011 financial statements and a qualified opinion on the June 30, 2010 financial statement, both of which were prepared in conformity with another comprehensive basis of accounting. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairfax's basic financial statements. The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 30 through 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Elkader, Iowa

April 22, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

City of Fairfax

Office of the Clerk

PO Box 337
Fairfax, LA 52228-0337

319-846-2204
fairfax@southslope.net

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Fairfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 79.2%, or approximately \$ 2.021 million from fiscal 2011 to fiscal 2012. Property tax increased approximately \$ 94,000 and bond proceeds increased approximately \$ 1.957 million.
- Disbursements of the City's governmental activities increased 26.1% or approximately \$ 560,000 in fiscal 2012 from fiscal 2011. Culture and recreation, community and economic development, and general government increased \$ 870,000, \$ 12,000, and \$ 52,000, respectively.
- The City's total cash basis net assets increased 108.4%, or approximately \$ 1.754 million from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased approximately \$ 1.926 million and the assets of the business type activities decreased approximately \$ 172,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state grants finance most of these activities.
2. Business Type Activities include the waterworks, the sanitary sewer system, solid waste disposal and farming operations. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds such as Road Use Tax, Urban Renewal Tax Increment and Local Option Sales Tax, and [c] the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to account for business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, Sewer, Garbage and Farm Operation funds. The Water and Sewer funds are considered to be major funds of the City.
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing approximately \$ 1.926 million to approximately \$ 2.890 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service	\$ 163	169
Operating grants and contributions, and restricted interest	279	209
General Receipts:		
Property tax	997	1,042
Local option sales tax	256	214
Unrestricted interest on investments	26	20
Bond proceeds	2,850	893
Other general receipts	4	5
Total receipts	<u>4,575</u>	<u>2,552</u>
Disbursements:		
Public safety	263	327
Public works	266	463
Culture and recreation	1,124	254
Community and economic development	12	-
General government	241	189
Debt service	805	917
Total disbursements	<u>2,711</u>	<u>2,150</u>
Change in cash basis net assets before transfers	1,864	402
Transfers, net	<u>63</u>	<u>(507)</u>
Change in cash basis net assets	1,927	(105)
Cash basis net assets beginning of year	<u>963</u>	<u>1,068</u>
Cash basis net assets end of year	<u>\$ 2,890</u>	<u>963</u>

The City's total receipts for governmental activities increased 79.2% or approximately \$ 2.021 million. The total cost of programs and services increased approximately \$ 560,000 or 26.1%. The significant increase in receipts were primarily the result of proceeds from the issuance of general obligation bonds to finance water main improvements and the Fairfax Athletics and Park Complex. The significant increase in disbursements was primarily the result of disbursements for the Fairfax Athletics and Park Complex.

City property tax receipts increased approximately \$ 94,000 in 2012. Property taxes are budgeted to decrease approximately \$ 20,000 in 2013, due primarily to state rollbacks in property tax valuations.

The cost of all governmental activities this year was approximately \$ 2.711 million compared to \$ 2.150 million last year. However, as shown in the Statement of Activities and Nets Assets on pages 15-16, the amount taxpayers ultimately financed for these activities was only \$ 2.269 million because some of the cost was paid by those directly benefited from the programs (\$ 163,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 279,000). Overall, in 2012, the City's governmental activities program receipts, including intergovernmental aid and fees for services, increased from approximately \$ 378,000 to approximately \$ 442,000, principally due to receiving more grant proceeds and donations. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 1.253 million in tax (some of which could only be used for certain programs) and with other receipts, such as bond proceeds.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year Ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 197	181
Sewer	336	298
Garbage	106	103
Farm	26	21
General receipts		
Miscellaneous	5	-
Total receipts	<u>670</u>	<u>603</u>

Disbursements:

Water	513	533
Sewer	155	195
Garbage	105	110
Farm	6	17
	<u>779</u>	<u>855</u>
Total disbursements		
Change in cash basis net assets before transfers	(109)	(252)
Transfers, net	<u>(63)</u>	<u>507</u>
Change in cash basis net assets	(172)	255
Cash basis net assets beginning of year	<u>655</u>	<u>400</u>
Cash basis net assets end of year	<u>\$ 483</u>	<u>655</u>

Total business type activities receipts for the fiscal year were approximately \$ 670,000 compared to \$ 603,000 last year. The significant increase was due primarily to an increase in sewer rates. Total disbursements decreased from approximately \$ 855,000 to approximately \$ 779,000 because of less construction work being completed in 2012.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fairfax completed the year, its governmental funds reported a combined fund balance of \$ 2,889,740, an increase of \$ 1,926,163 from last year's total of \$ 963,577. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 1,501,655 from the prior year to \$ 2,201,287. This increase was due primarily to general obligation bond proceeds received for the Fairfax Athletics and Park Complex, but not yet disbursed.
- The Special Revenue, Road Use Tax Fund decreased \$ 7,064 to \$ 28,877.
- The Special Revenue, Urban Renewal Tax Increment Fund was established to account for projects within the City's urban renewal districts. At the end of the fiscal year, the cash balance was \$ 57,515, a decrease of \$ 54,500 from the previous year. Receipts in the fund are being used to retire debt acquired from extending infrastructure and improving land in the urban renewal districts. The City is intentionally bringing the balance in the fund to \$ 20,000 over a period of time.
- The Special Revenue, Local Option Sales Tax Fund was established in 2009 as the City began collecting the 1% local option sales tax. Sales tax receipts were \$ 255,178 for fiscal year 2012. The City disbursed \$ 89,637 of sales tax receipts for the purchase of a rescue vehicle and \$ 148,988 for the Athletics and Park Complex. At June 30, 2012, the fund balance was \$ 157,618, an increase of \$ 41,629 from fiscal 2011.

- The Debt Service Fund retired \$ 548,000 of outstanding debt and paid \$ 257,057 of interest and service fees during fiscal 2012. The Debt Service Fund received \$ 59,467 from the General Fund, \$ 504,569 from the Special Revenue, Urban Renewal Tax Increment Fund, \$ 9,219 from the Enterprise, Water Fund and \$ 197,014 from the Enterprise, Sewer Fund to cover debt service payments. At the end of June, 2012, the fund received general obligation bond proceeds to retire the December 1, 2004 issue. This accounts for the \$ 444,443 fund balance at June 30, 2012.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$ 120,230 to \$ 206,859 due to completion of one phase of the water main extension project.
- The Enterprise, Sewer Fund cash balance decreased \$ 74,894 to \$ 237,122, primarily due to transferring \$ 61,105 of unused funds back to Local Option Sales Tax Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget three times. The first amendment was approved October 11, 2011 and increased budgeted disbursements \$ 3,798,200 primarily because of the Fairfax Athletics and Complex project. The second amendment was approved March 13, 2012 and decreased budgeted disbursements \$ 705,000. The third amendment was approved May 8, 2012 and increased budgeted disbursements \$ 40,000, reversing a portion of the March 13 amendment.

The City's receipts were \$ 39,372 more than budgeted. This was primarily due to the City receiving a \$ 28,555 premium from the November 10, 2011 bond issue.

The City exceeded amounts budgeted in the general government and debt service functions for the year ended June 30, 2012, due to the netting of the bond premium against bond issuance costs.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$ 8,205,346 of long-term debt outstanding, compared to \$ 5,921,728 last year, as shown in the following.

<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>			
		<u>June 30,</u>	
		<u>2012</u>	<u>2011</u>
General obligation notes	\$	2,175	2,535
General obligation bonds		3,698	918
Revenue bonds		2,262	2,380
Lease/purchase agreements		<u>70</u>	<u>89</u>

Total

\$ 8,205 5,922

Debt increased as a result of issuing general obligation bonds for a water main replacement project, the Athletics and Park Complex and a fire rescue vehicle. The City defeased \$ 430,000 of general obligation bonds in July, 2012.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 5,943,346 is less than its constitutional debt limit of nearly \$ 7,939,885.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fairfax's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees that will be charged for various City activities. One of these factors is the economy. The City has experienced over a 138% increase in population from 2000 to 2010. Taxable valuations have increased 53.5% since fiscal year 2007.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$ 6.345 million, an increase of 12.0% from the final 2012 budget. Property taxes are budgeted to decrease \$ 18,511. The tax levy rate remains unchanged. Disbursements are budgeted to increase approximately \$ 420,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease \$ 276,088 by the close of 2013.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Cynthia Stimson, City Clerk/Treasurer; 525 Vanderbilt Street; Fairfax, Iowa 52228-0337.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF FAIRFAX
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2012

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 262,658	90,217	21,520	(150,921)	-	(150,921)
Public works	265,955	-	201,797	(64,158)	-	(64,158)
Culture and recreation	1,123,820	34,792	26,545	(1,062,483)	-	(1,062,483)
Community and economic development	11,992	200	-	(11,792)	-	(11,792)
General government	240,765	37,690	-	(203,075)	-	(203,075)
Debt service	805,257	-	28,555	(776,702)	-	(776,702)
Total governmental activities	2,710,447	162,899	278,417	(2,269,131)	-	(2,269,131)
Business type activities:						
Water	512,695	197,397	-	-	(315,298)	(315,298)
Sewer	154,812	336,018	-	-	181,206	181,206
Garbage	105,025	106,070	-	-	1,045	1,045
Farm operations	6,372	25,570	-	-	19,198	19,198
Total business type activities	778,904	665,055	-	-	(113,849)	(113,849)
Total	\$ 3,489,351	827,954	278,417	(2,269,131)	(113,849)	(2,382,980)
General Receipts and Transfers:						
Property and other city tax				546,289	-	546,289
levied for general purposes				450,269	-	450,269
Tax increment financing				255,718	-	255,718
Local option sales tax				25,990	19	26,009
Unrestricted interest				2,850,000	-	2,850,000
Bond proceeds				3,892	5,065	8,957
Miscellaneous				63,136	(63,136)	-
Transfers				4,195,294	(58,052)	4,137,242
Total general receipts and transfers				1,926,163	(171,901)	1,754,262
Change in cash basis net assets				963,577	654,651	1,618,228
Cash basis net assets beginning of year						
Cash basis net assets end of year				\$ 2,889,740	482,750	3,372,490

(continued)

CITY OF FAIRFAX
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2012

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets			
Restricted, unexpendable			
Meter deposits	\$ 0	12,750	12,750
Restricted, expendable			
Urban renewal purposes	7,515	0	7,515
Debt service	444,443	72,677	517,120
Streets	28,877	0	28,877
Fire department	28,233	0	28,233
Fireworks	16,119	0	16,119
Library	219,031	0	219,031
Parks	1,306,587	0	1,306,587
Trail project	150,000	0	150,000
Water main project	0	143,806	143,806
Sewer improvements	29,518	0	29,518
Other	28,100	0	28,100
Unrestricted	631,317	253,517	884,834
Total cash basis fund balances	\$ 2,889,740	482,750	3,372,490

See notes to financial statements.

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	Special Revenue					Debt Service	Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax			
Receipts:							
Property tax	\$ 540,087	-	-	-	-	-	540,087
Tax increment financing	-	-	450,269	-	-	-	450,269
Other city tax	6,202	-	-	255,718	-	-	261,920
Licenses and permits	30,703	-	-	-	-	-	30,703
Use of money and property	29,695	-	-	265	-	-	29,960
Intergovernmental	133,327	201,369	-	-	-	-	334,696
Charges for service	10,240	-	-	-	-	-	10,240
Miscellaneous	36,809	235	-	-	28,555	-	65,599
Total receipts	787,063	201,604	450,269	255,983	28,555		1,723,474
Disbursements:							
Operating:							
Public safety	173,021	-	-	89,637	-	-	262,658
Public works	50,079	208,668	-	7,208	-	-	265,955
Culture and recreation	974,832	-	-	148,988	-	-	1,123,820
Community and economic development	11,992	-	-	-	-	-	11,992
General government	211,139	-	-	29,626	-	-	240,765
Debt service	-	-	200	-	805,057	-	805,257
Total disbursements	1,421,063	208,668	200	275,459	805,057		2,710,447
Excess (deficiency) of receipts over (under) disbursements	(634,000)	(7,064)	450,069	(19,476)	(776,502)		(986,973)
Other financing sources (uses):							
Bond proceeds	-	-	-	-	2,850,000	-	2,850,000
Operating transfers in	2,195,122	-	-	61,105	770,269	-	3,026,496
Operating transfers out	(59,467)	-	(504,569)	-	(2,399,324)	-	(2,963,360)
Total other financing sources (uses)	2,135,655	-	(504,569)	61,105	1,220,945		2,913,136
Net change in cash balances	1,501,655	(7,064)	(54,500)	41,629	444,443		1,926,163
Cash balances beginning of year	699,632	35,941	112,015	115,989	-		963,577
Cash balances end of year	\$ 2,201,287	28,877	57,515	157,618	444,443		2,889,740

(continued)

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	Special Revenue					Total
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	
Cash Basis Fund Balances						
Restricted for:	\$					
Urban renewal purposes	-	-	7,515	-	-	7,515
Debt service	-	-	-	-	444,443	444,443
Streets	-	28,877	-	-	-	28,877
Fire Department	28,233	-	-	-	-	28,233
Fireworks	16,119	-	-	-	-	16,119
Library	219,031	-	-	-	-	219,031
Parks	1,306,587	-	-	-	-	1,306,587
Trail project	-	-	50,000	100,000	-	150,000
Sewer improvements	-	-	-	29,518	-	29,518
Other	29,153	-	-	28,100	-	28,100
Committed for trail project	602,164	-	-	-	-	29,153
Unassigned	-	-	-	-	-	602,164
Total cash basis fund balances	\$ 2,201,287	28,877	57,515	157,618	444,443	2,889,740

See notes to financial statements.

CITY OF FAIRFAX
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2012

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts				
Charges for service	\$ 197,397	336,018	131,640	665,055
Operating disbursements				
Business type activities	183,912	154,812	111,397	450,121
Excess of operating receipts over Operating disbursements	13,485	181,206	20,243	214,934
Non-operating receipts (disbursements)				
Interest on investments	0	0	19	19
Miscellaneous	0	2,019	2,961	4,980
Meter deposits - net	85	0	0	85
Capital projects	(328,783)	0	0	(328,783)
Net non-operating receipts (disbursements)	(328,698)	2,019	2,980	(323,699)
Excess (deficiency) of receipts over (under) disbursements	(315,213)	183,225	23,223	(108,765)
Operating transfers in (out)	194,983	(258,119)	0	(63,136)
Net change in cash balances	(120,230)	(74,894)	23,223	(171,901)
Cash balances beginning of year	327,089	312,016	15,546	654,651
Cash balances end of year	\$ 206,859	237,122	38,769	482,750
Cash Basis Fund Balances				
Restricted, unexpendable				
Meter deposits	\$ 12,750	0	0	12,750
Restricted, expendable				
Debt service	0	72,677	0	72,677
Water main project	143,806	0	0	143,806
Unrestricted	50,303	164,445	38,769	253,517
Total cash fund balances	\$ 206,859	237,122	38,769	482,750

See notes to financial statements.

CITY OF FAIRFAX
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1) Summary of Significant Accounting Policies

The City of Fairfax is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1936 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fairfax has included all funds, organization, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, Linn County Joint E911 Service Board, and the Corridor Metropolitan Planning Organization.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Non-expendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including customer utility deposits.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. All remaining proprietary funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for the spending of the 1% local option sales tax in accordance with voter wishes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Fairfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When disbursements in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints imposed by the City Council through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Account Standards Board Statement No. 3.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds of the City are as follows.

Year Ending June 30,	General Obligation Bonds and Notes		Financing Revenues Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 730,000	156,568	122,000	67,860	852,000	224,428
2014	770,000	139,906	125,000	64,200	895,000	204,106
2015	775,000	121,157	129,000	60,450	904,000	181,607
2016	635,000	100,582	133,000	56,580	768,000	157,162
2017	490,000	83,698	137,000	52,590	627,000	136,288
2018-2022	1,999,000	229,261	749,000	198,810	2,748,000	428,071
2023-2027	459,000	24,130	867,000	79,620	1,326,000	103,750
2028-2029	15,000	690	0	0	15,000	690
Total	\$ 5,873,000	855,992	2,262,000	580,110	8,135,000	1,436,102

General Obligation Bonds

The agreement with the Iowa Finance Authority requires the City to annually pay a .25% servicing fee on the outstanding balance of the water improvement general obligation bonds issued on February 10, 2010, which had an outstanding balance of \$ 103,000 at June 30, 2012.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements to repay the \$ 2,400,000 of sewer revenue bonds issued on December 1, 2008 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance (\$ 2,262,000 at June 30, 2012). The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 189,400 and \$ 181,206, respectively.

4) Other Long-Term Debt

Annual debt service requirements to maturity for other long-term debt is as follows:

<u>Year Ending June 30,</u>	<u>Lease-purchase agreements</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 35,601	3,928
2014	7,006	1,963
2015	7,402	1,567
2016	<u>20,337</u>	<u>1,149</u>
Total	<u>\$ 70,346</u>	<u>8,607</u>

5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$ 25,292, \$ 21,426 and \$ 20,078, respectively, equal to the required contributions for each year.

6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and spouses. There are 7 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City.

The City currently finances the retirement benefit plan on a pay-as-you-go basis. The monthly premiums for the City and plan members are based on the age of the participant. For the year ended June 30, 2012, the City contributed \$ 43,041 and plan members contributed \$ 4,816 to the plan.

7) Compensated Absences

The City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death.

These accumulations are not recognized as disbursements until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,200
Compensatory hours	<u>8,100</u>
Total	<u>\$ 11,300</u>

The liability has been computed based on rates of pay in effect at June 30, 2012.

8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 are as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Debt Service	<u>\$ 2,195,122</u>
Special Revenue: Local Option Sales Tax	Enterprise: Sewer	<u>61,105</u>
Debt Service	General	59,467
	Special Revenue: Urban Renewal Tax Increment	504,569
	Enterprise: Water	9,219
	Sewer	<u>197,014</u>
		<u>770,269</u>
Enterprise: Water	Debt Service	<u>204,202</u>
Total		<u>\$ 3,230,698</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance in any of the past three years.

10) Commitments

Construction Contracts - The City has entered into two construction contracts totaling \$ 1,660,785 for construction of the Fairfax Athletics and Park Complex. As of June 30, 2012, \$ 435,390 had been disbursed under these contracts. The balance of \$ 1,225,395 will be paid as work on the contracts continues. These contracts are being financed by the November 10, 2011 general obligation bond issued in the amount of \$ 2,260,000.

June 26, 2012 General Obligation Bond Issue - The City received proceeds in the amount of \$ 590,000 from the issuance of general obligation bonds on June 26, 2012. The proceeds were committed to purchase the body for the rescue unit chassis in the amount of \$ 182,487 and retiring the December 1, 2004 wastewater general obligation notes in the amount of \$ 430,000. These proceeds were disbursed July, 2012.

OTHER INFORMATION

CITY OF FAIRFAX
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES—
BUDGET AND ACTUAL (CASH BASIS)—ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 540,087	-	540,087	525,864	525,864	14,223
Tax increment financing	450,269	-	450,269	460,000	460,000	(9,731)
Other city tax	261,920	-	261,920	265,695	285,695	(23,775)
Licenses and permits	30,703	-	30,703	35,000	35,000	(4,297)
Use of money and property	29,960	19	29,979	32,000	32,000	(2,021)
Intergovernmental	334,696	-	334,696	321,832	321,832	12,864
Charges for service	10,240	665,055	675,295	662,350	662,350	12,945
Miscellaneous	65,599	5,065	70,664	25,000	31,500	39,164
Total receipts	1,723,474	670,139	2,393,613	2,327,741	2,354,241	39,372
Disbursements:						
Public safety	262,658	-	262,658	261,121	351,121	88,463
Public works	265,955	-	265,955	357,500	307,500	41,545
Culture and recreation	1,123,820	-	1,123,820	439,943	3,428,943	2,305,123
Community and economic development	11,992	-	11,992	10,000	15,000	3,008
General government	240,765	-	240,765	199,800	239,800	(965)
Debt service	805,257	-	805,257	723,624	771,824	(33,433)
Business type activities	-	778,904	778,904	1,021,450	1,086,450	307,546
Total disbursements	2,710,447	778,904	3,489,351	3,013,438	6,200,638	2,711,287
Deficiency of receipts under disbursements	(986,973)	(108,765)	(1,095,738)	(685,697)	(3,846,397)	2,750,659
Other financing sources, net	2,919,136	(63,136)	2,856,000	540,000	3,310,000	(460,000)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,926,163	(171,901)	1,754,262	(145,697)	(536,397)	2,290,659
Balances beginning of year	963,577	654,651	1,618,228	1,313,459	1,618,297	(69)
Balances end of year	\$ 2,889,740	482,750	3,372,490	1,167,762	1,081,900	2,290,590

See accompanying independent auditor's report and notes to other information.

CITY OF FAIRFAX

Notes to Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, three budget amendments increased budgeted disbursements by \$ 3,187,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the general government and debt service functions.

SUPPLEMENTARY INFORMATION

CITY OF FAIRFAX
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2012

	<u>Enterprise</u>		
		Farm	
	<u>Garbage</u>	<u>Operations</u>	<u>Total</u>
Operating receipts			
Charges for service	\$ 106,070	25,570	131,640
Operating disbursements			
Business type activities	<u>105,025</u>	<u>6,372</u>	<u>111,397</u>
Excess of operating receipts over operating disbursements	<u>1,045</u>	<u>19,198</u>	<u>20,243</u>
Non-operating receipts			
Interest on investments	0	19	19
Miscellaneous	<u>121</u>	<u>2,840</u>	<u>2,961</u>
Net non-operating receipts	<u>121</u>	<u>2,859</u>	<u>2,980</u>
Excess of receipts over disbursements	1,166	22,057	23,223
Cash balances beginning of year	<u>10,599</u>	<u>4,947</u>	<u>15,546</u>
Cash balances end of year	<u>\$ 11,765</u>	<u>27,004</u>	<u>38,769</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 11,765</u>	<u>27,004</u>	<u>38,769</u>

See accompanying independent auditor's report.

CITY OF FAIRFAX
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Wastewater improvement	Dec 1, 2004	3.40-3.80%	\$ 700,000	475,000	-	45,000	430,000	19,090
Sanitary water improvement	Oct 1, 2005	3.40-3.70	650,000	350,000	-	85,000	265,000	12,435
Sanitary sewer and refunding	Mar 1, 2008	2.80-3.40	560,000	410,000	-	60,000	350,000	12,770
Refunding	Apr 1, 2008	3.10-3.70	780,000	510,000	-	100,000	410,000	17,385
Water improvement	Mar 24, 2009	2.75-4.20	790,000	790,000	-	70,000	720,000	28,123
Total				\$ 2,535,000	-	360,000	2,175,000	89,803
General obligation bonds:								
Water improvement	Feb 10, 2010	3.00%	\$ 118,000	108,000	-	5,000	103,000	3,240
Fire truck and refunding	Sep 9, 2010	1.20-2.00	335,000	270,000	-	65,000	205,000	4,280
Water improvement	May 12, 2011	1.35-3.65	540,000	540,000	-	-	540,000	14,934
Watermain improvement and Fairfax Athletics and Park Complex	Nov 10, 2011	2.00-3.00	2,260,000	-	2,260,000	-	2,260,000	28,693
Fire truck and refunding	Jun 26, 2012	0.60-1.70	590,000	-	590,000	-	590,000	-
Total				\$ 918,000	2,850,000	70,000	3,698,000	51,147
Revenue bonds:								
Sewer	Dec 1, 2008	3.00%	\$ 2,400,000	2,380,000	-	118,000	2,262,000	71,400
Lease/purchase agreements:								
Caterpillar backhoe loader	Feb 12, 2008	5.49%	\$ 87,951	41,075	-	12,105	28,970	2,255
Caterpillar compact truck loader	Apr 12, 2011	5.65	47,653	47,653	-	6,277	41,376	2,692
Total				\$ 88,728	-	18,382	70,346	4,947

See accompanying independent auditor's report.

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2012

General Obligation Notes

Year Ending June 30,	Wastewater Improvement		Sanitary Sewer Improvement		Sanitary Sewer and Refunding		Refunding		Water Improvement	
	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount
2013	3.55%	\$ 45,000	3.50%	\$ 85,000	2.80%	\$ 65,000	3.25%	\$ 95,000	2.75%	\$ 70,000
2014	3.70	50,000	3.60	90,000	3.10	70,000	3.40	100,000	2.75	75,000
2015	3.85	50,000	3.70	90,000	3.10	70,000	3.55	105,000	3.50	75,000
2016	4.00	55,000	-	-	3.40	75,000	3.70	110,000	3.50	80,000
2017	4.15	55,000	-	-	3.40	35,000	-	-	3.50	80,000
2018	4.30	55,000	-	-	3.40	35,000	-	-	4.00	80,000
2019	4.40	60,000	-	-	-	-	-	-	4.00	85,000
2020	4.50	60,000	-	-	-	-	-	-	4.20	90,000
2021	-	-	-	-	-	-	-	-	4.20	90,000
Total		\$ 430,000		\$ 265,000		\$ 350,000		\$ 410,000		\$ 720,000
										2,175,000

General Obligation Bonds

Year Ending June 30,	Water Improvement		Fire Truck/Refunding		Water Improvement		Water Main Improvement and Park		Fire Truck and Refunding	
	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount	Issued Interest Rates	Amount
2013	3.00%	\$ 5,000	1.40%	\$ 65,000	1.35%	\$ 50,000	2.00%	\$ 175,000	0.60%	\$ 75,000
2014	3.00	5,000	1.70	70,000	1.35	50,000	2.00	175,000	0.60	85,000
2015	3.00	5,000	2.00	70,000	2.05	50,000	2.00	175,000	0.85	85,000
2016	3.00	5,000	-	-	2.05	50,000	2.00	175,000	0.85	90,000
2017	3.00	5,000	-	-	2.65	50,000	2.00	180,000	1.25	85,000
2018	3.00	5,000	-	-	2.65	55,000	2.00	185,000	1.25	55,000
2019	3.00	6,000	-	-	3.15	55,000	2.00	185,000	1.70	60,000
2020	3.00	6,000	-	-	3.15	60,000	2.20	190,000	1.70	55,000
2021	3.00	6,000	-	-	3.65	60,000	2.40	195,000	-	-
2022	3.00	6,000	-	-	3.65	60,000	2.60	200,000	-	-
2023	3.00	6,000	-	-	-	-	2.80	210,000	-	-
2024	3.00	7,000	-	-	-	-	3.00	215,000	-	-
2025	3.00	7,000	-	-	-	-	-	-	-	-
2026	3.00	7,000	-	-	-	-	-	-	-	-
2027	3.00	7,000	-	-	-	-	-	-	-	-
2028	3.00	7,000	-	-	-	-	-	-	-	-
2029	3.00	8,000	-	-	-	-	-	-	-	-
Total		\$ 103,000		\$ 205,000		\$ 540,000		\$ 2,260,000		\$ 590,000
										3,698,000

(continued)

CITY OF FAIRFAX
BOND AND NOTE MATURITIES
June 30, 2012

Year Ending June 30,	<u>Revenue Bonds</u> <u>Issued February 2, 2008</u>	
	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2013	3.00%	\$ 122,000
2014	3.00	125,000
2015	3.00	129,000
2016	3.00	133,000
2017	3.00	137,000
2018	3.00	141,000
2019	3.00	145,000
2020	3.00	150,000
2021	3.00	154,000
2022	3.00	159,000
2023	3.00	163,000
2024	3.00	168,000
2025	3.00	173,000
2026	3.00	179,000
2027	3.00	184,000
		<u>\$ 2,262,000</u>

See accompanying independent auditor's report.

CITY OF FAIRFAX
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Three Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Receipts			
Property tax	\$ 540,087	452,537	425,909
Tax increment financing	450,269	589,491	585,576
Other city tax	261,920	213,898	210,814
Licenses and permits	30,703	35,626	33,250
Use of money and property	29,960	24,692	33,586
Intergovernmental	334,696	288,938	288,017
Charges for service	10,240	4,425	0
Miscellaneous	<u>65,599</u>	<u>46,696</u>	<u>86,731</u>
Total	<u>\$ 1,723,474</u>	<u>1,656,303</u>	<u>1,663,883</u>
Disbursements			
Operating			
Public safety	\$ 262,658	327,357	155,302
Public works	265,955	462,784	336,818
Culture and recreation	1,123,820	253,544	219,882
Community and economic development	11,992	0	5,064
General government	240,765	189,052	206,012
Debt service	<u>805,257</u>	<u>917,470</u>	<u>661,240</u>
Total	<u>\$ 2,710,447</u>	<u>2,150,207</u>	<u>1,584,318</u>

See accompanying independent auditor's report

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fairfax, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated April 22, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Fairfax is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fairfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fairfax's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Fairfax's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fairfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Fairfax's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of City of Fairfax and other parties to whom the City of Fairfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fairfax during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

April 22, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses were identified

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Responses - We will take care to ensure that the budget amendments increase disbursements enough to cover all contingencies.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from funds as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions - No business transactions between City and City officials or employees were noted.

- II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-G-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF FAIRFAX
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

- II-H-12 Revenue Bonds - Debt service requirements for the sewer revenue bonds for the fiscal year ended June 30, 2012 were \$ 189,400, while the Enterprise, Sewer Fund net operating receipts were only \$ 181,206. It appears the debt service requirements exceeding net operating receipts in the Enterprise, Sewer Fund violates the revenue bond covenants.

Recommendation - The City should investigate ways to increase net operating receipts in the sewer enterprise activity.

Response - The City has increased sewer rates.

Conclusion - Response accepted.

- II-I-12 Cash Balance - The Special Revenue, Urban Renewal Tax Increment Fund has accumulated a balance of \$ 57,515 over a period of years.

Recommendation - Large balances should not be accumulated in the Urban Renewal Tax Increment Fund as tax askings should be used for current capital projects in the applicable TIF District or retirement of TIF debt. The Council should appropriate the majority of the carryover balance to either early retirement of TIF debt or capital projects within the TIF District, so that the carryover balance is less than \$ 20,000.

Response - From fiscal 2010, the City has lowered the balance in the fund from \$ 176,908 to \$ 57,515. Further efforts this year should get the balance reduced to the goal of \$ 20,000.

Conclusion - Response accepted.